

# **U.S. Customs and Border Protection Office of Strategic Trade Regulatory Audit Division**

## **Internal Control Management and Evaluation Tool (Guidance not Required)**

### **Introduction**

In March 2003, the U.S. Customs Service became part of the Bureau of Customs and Border Protection, which will continue to be referenced as Customs in this document.

This document is an Internal Control Management and Evaluation Tool. Although use of this tool is not required, it is intended to help management and evaluators determine how well a company's internal control is designed and functioning and help determine what, where, and how improvements, when needed, may be implemented. This is a good tool for auditors to use when developing questions and conducting interviews with company personnel, particularly in large, complex companies.

The tool is presented in five sections corresponding to the five components of internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring.

Space is provided beside each issue for the user to note comments or provide descriptions of the circumstances affecting the issue. Comments and descriptions usually will not be of the "yes/no" type, but will generally include information on how the company does or does not address the issue. This tool is intended to help users reach a conclusion about the company's internal control as it pertains to the particular component.

This tool could be useful in assessing internal control in compliance with laws and regulations. It could also be useful in assessing internal control as it relates to various Customs activities within a company.

This tool is not authoritative but is intended as a supplemental guide that managers and evaluators may use in assessing the effectiveness of internal control and identifying important aspects of control in need of improvement. Users should keep in mind that this tool is a starting point and that it can and should be modified to fit the circumstances, conditions, and risks relevant to the situation of the company. Not all of the issues need to be considered for every company or activity.

### **Control Environment**

According to the first internal control component, which relates to control environment, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. Several key factors affect the accomplishment of this goal. Management and evaluators should consider each of these control environment factors when determining whether a positive control environment has been achieved.

The factors that should be focused on are listed below. Management and evaluators should concentrate on the substance of controls rather than their form, because controls may be established but not acted upon.

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<b>Integrity and Ethical Values</b>	
1.	Management has promoted a climate that emphasizes integrity and ethical behavior by its Import Department employees. The company employs a code of conduct that emphasizes proper behavior and sets penalties for unethical conduct.	
2.	Dealings with Customs are conducted on a high ethical plane. <ul style="list-style-type: none"> <li>• Reports to Customs are proper and accurate (not intentionally misleading).</li> <li>• Management cooperates with auditors and other evaluators, does not attempt to hide known problems from them, and values their comments and recommendations.</li> </ul>	
3.	The company has a well-defined and -understood process for dealing with Customs requests and concerns in a timely and appropriate manner.	
	<b>Commitment to Competence</b>	
1.	Management has performed analyses of the knowledge, skills, and abilities needed to perform Customs-related jobs in an appropriate manner.	
2.	The company provides training and counseling in order to help employees maintain and improve their competence for the job relating to Customs. <ul style="list-style-type: none"> <li>• There is an appropriate training program to meet the needs of employees.</li> <li>• The company emphasizes the need for continuing training and has a control mechanism to help ensure that all employees actually received appropriate training.</li> </ul>	
	<b>Management's Philosophy and Operating Style</b>	
1.	Management employs a philosophy that emphasizes the correct reporting of information to Customs.	
2.	Management places a high degree of importance on retaining competent personnel in key functions over its Customs transactions.	
3.	The company Import Department has adequate authority to interact with other offices as needed, and strong synchronization and coordination exist between the Import Department and other departments with responsibilities or information related to Customs activities.	
4.	Management places a high degree of importance on the work of Customs officers, external audits, and other evaluations and studies with Customs information and is responsive to information from such officers.	
5.	There is appropriate interaction between management of the company Import Department and senior management.	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<b>Organizational Structure</b>	
1.	The Import Department is appropriately located in the organization.	
2.	Key areas of authority and responsibility relative to Customs activities are defined and communicated throughout the organization. Consider the following: <ul style="list-style-type: none"> <li>• Executives in charge of major activities or functions are fully aware of their duties and responsibilities.</li> <li>• Executives and key managers understand their internal control responsibilities and ensure that their staff also understands their own responsibilities.</li> </ul>	
	<b>Assignment of Authority and Responsibility</b>	
1.	The company appropriately assigns authority and delegates responsibility for Customs activities to the proper personnel to deal with organizational goals and objectives. <ul style="list-style-type: none"> <li>• Authority and responsibility are clearly assigned throughout the organization and clearly communicated to employees.</li> <li>• Responsibility for decision making is clearly linked to the assignment of authority and responsibility.</li> </ul>	
2.	Each employee knows how his or her actions related to Customs activities interrelate to others' actions and is aware of his or her related duties concerning Customs internal control.	
3.	Delegation of authority is appropriate in relation to the assignment of responsibility for Customs activities. <ul style="list-style-type: none"> <li>• Employees at the appropriate level are empowered to correct problems or implement improvements.</li> <li>• There is an appropriate balance between the delegation of authority at lower levels to "get the job done" and the involvement of senior-level personnel.</li> </ul>	
	<b>Human Resource Policies and Practices</b>	
1.	Employee's responsibilities for Customs activities are properly supervised.	
	<b>Oversight Groups</b>	
1.	Within the company, there are mechanisms in place to monitor and review operations and programs. <ul style="list-style-type: none"> <li>• The company has a committee or senior management council that reviews internal audit work of Customs activities.</li> <li>• The internal audit function reviews the company's Customs activities and systems and provides information, analyses, appraisals, recommendations, and counsel to management.</li> </ul>	

## Risk Assessment

The second internal control component addresses risk assessment. A precondition to risk assessment is the establishment of clear, consistent company goals and objectives at both the entity level and the activity level. Once the objectives have been established, the company needs to identify the risks that could impede the efficient and effective achievement of those objectives. Internal control should provide for an assessment of the risks the company faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then must formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable Customs reporting, and compliance with laws and regulations. A manager or evaluator will focus on management's processes for setting objectives, risk identification, risk analysis, and management of risk during times of change. Listed below are factors a user might consider.

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<b>Establishment of Activity-Level Objectives</b>	
1.	Company Customs office objectives are linked with company objectives.	
	<b>Risk Identification</b>	
1.	<p>Management identifies Customs risk.</p> <ul style="list-style-type: none"> <li>Qualitative and quantitative methods are used to identify risk and determine relative risk rankings on a scheduled and periodic basis.</li> <li>How risk is to be identified, ranked, analyzed, and mitigated is communicated to appropriate staff.</li> <li>Risk identification and discussion occur in senior-level management meetings.</li> <li>Risk identification takes place as part of short- and long-term forecasting and strategic planning.</li> <li>Risk identification occurs as a result of consideration of findings from audits, evaluations, and other assessments.</li> </ul>	
2.	<p>Adequate mechanisms exist to identify risks to Customs activities arising from external factors. The company should consider the risks:</p> <ul style="list-style-type: none"> <li>Arising from changing needs or expectations by Congress, Customs officials, or the public.</li> <li>Posed by new legislation, regulations, rulings, and court decisions.</li> <li>Resulting from business, political, or economic changes.</li> <li>Associated with major suppliers, brokers, contractors, and agents.</li> <li>Resulting from interactions with other companies and outside parties.</li> </ul>	
3.	<p>Adequate mechanisms exist to identify risks to Customs activities arising from internal factors. The company should consider the risks:</p> <ul style="list-style-type: none"> <li>Resulting from downsizing operations and personnel.</li> <li>Associated with major changes of operating processes, foreign sourcing, or importing operations.</li> <li>Resulting from new lines, products, or other business activities.</li> </ul>	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<ul style="list-style-type: none"> <li>• Associated with restructuring and reorganizations.</li> <li>• Posed by disruption of information systems.</li> <li>• Posed by highly decentralized Customs operations.</li> <li>• Posed by personnel turnover or personnel who are not adequately qualified and trained.</li> <li>• Resulting from heavy reliance on agents or other parties to perform critical company operations.</li> <li>• Resulting from rapid growth or expansion of import operations.</li> </ul>	
4.	Management assesses other factors such as a history of compliance problems.	
	<b>Risk Analysis</b>	
1.	<p>After Customs risks have been identified, management should undertake an analysis of their possible effect. Consider the following:</p> <ul style="list-style-type: none"> <li>• Management has established a formal or informal process to analyze risks.</li> <li>• Criteria have been established for determining low, medium, and high risks.</li> <li>• Appropriate levels of management and employees are involved in the risk analysis.</li> <li>• Risks identified and analyzed are relevant to the corresponding activity objective.</li> <li>• Risk analysis includes estimating the risk's significance and sensitivity.</li> <li>• Risk analysis includes estimating the likelihood and frequency of occurrence of each risk (susceptibility) and determining whether it falls into the low-, medium-, or high-risk category.</li> <li>• A determination is made on how best to manage or mitigate the risk and what specific actions should be taken.</li> </ul>	
2.	<p>Management has developed an approach for risk management related to Customs compliance and control based on how much risk can be prudently accepted. Consider the following:</p> <ul style="list-style-type: none"> <li>• The approach will vary from company to company based on the company's Customs activities.</li> <li>• The approach is designed to keep risks within levels judged to be appropriate, and management takes responsibility for setting the tolerable risk levels.</li> <li>• Specific control activities are decided upon to manage or mitigate specific risks, and their implementation is monitored.</li> </ul>	
	<b>Managing Risks During Change</b>	
1.	The company has mechanisms in place to anticipate, identify, and react to risks presented by changes in government, economic, industry, regulatory, operating, or other conditions that can affect Customs compliance.	
2.	The company gives special attention to risks presented by changes that can have a more dramatic and pervasive effect on Customs compliance.	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<p>The company is attentive to risks related to:</p> <ul style="list-style-type: none"> <li>• Changes in Customs information systems.</li> <li>• Rapid growth and expansion or rapid downsizing.</li> <li>• Imports under Customs programs and activities that are new to the company.</li> <li>• Imports from a new geographical area.</li> </ul>	

## Control Activities

The third internal control component addresses control activities. Internal control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's directives to mitigate risks identified during the risk assessment process are carried out. Control activities are an integral part of the company's planning, implementing, and reviewing processes.

Control activities occur at all levels and functions of the company. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. A manager or evaluator should focus on control activities in the context of the company's management directives to address risks associated with established objectives for each significant activity. Therefore, a manager or evaluator will consider whether control activities relate to the risk assessment process and whether they are appropriate to ensure that management's directives are carried out. In assessing the adequacy of internal control activities, a reviewer should consider whether the proper control activities have been established, whether they are sufficient in number, and the degree to which those activities are operating effectively. This analysis and evaluation should also include controls over computerized information systems. A manager or evaluator should consider not only whether established control activities are relevant to the risk assessment process, but also whether they are being applied properly.

Given the wide variety of control activities that companies may employ, it would be impossible for this tool to address them all. However, there are some general, overall points to be considered by managers and evaluators, as well as several major categories or types of control activity factors that are applicable at various levels throughout practically all companies. In addition, some control activity factors are specifically designed for information systems. These factors and related issues are listed below as examples of issues to be considered. They are meant to illustrate the range and variety of control activities that are typically used.

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<b>General Application</b>	
1.	<p>Appropriate policies, procedures, techniques, and mechanisms exist with respect to Customs activities.</p> <ul style="list-style-type: none"> <li>• All relevant objectives and associated risks have been identified in relation to the risk assessment and analysis function of internal control.</li> <li>• Management has identified the actions and control activities needed to address the risks and directed their implementation.</li> </ul>	
2.	<p>Control activities identified as necessary are in place and being applied. Consider the following:</p>	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<ul style="list-style-type: none"> <li>Control activities described in policy and procedures manuals are actually applied and applied properly.</li> <li>Supervisors and employees understand the purpose of internal control activities.</li> <li>Supervisory personnel review the functioning of control activities.</li> <li>Timely action is taken on exceptions, implementation problems, or information that requires follow-up.</li> </ul>	
	<b>Common Categories of Control Activities</b>	
1.	<p>Management tracks Customs compliance in relation to goals.</p> <ul style="list-style-type: none"> <li>Managers at all activity levels review performance reports, analyze trends, and measure results against targets.</li> <li>Appropriate control activities are employed such as reconciliations of summary information to supporting detail</li> </ul>	
2.	<p>The company effectively manages its workforce to achieve Customs compliance.</p> <ul style="list-style-type: none"> <li>Procedures are in place to ensure that personnel with appropriate competencies are recruited and retained.</li> <li>Employees are provided with orientation, training, and tools to perform their duties and responsibilities, improve their performance, and meet the demands of changing organizational needs.</li> <li>Qualified and continuous supervision is provided to ensure that internal control objectives are being met.</li> </ul>	
3.	The company employs a variety of controls of Customs activities to ensure accuracy and completeness of information processing.	
4.	<p>The company has established and monitors performance measures and indicators for Customs activities.</p> <ul style="list-style-type: none"> <li>Actual performance data are continually compared and analyzed against expected or planned goals.</li> <li>Unexpected results or unusual trends are investigated to identify circumstances where achievement of goals for Customs compliance is threatened. Corrective action is taken.</li> </ul>	
5.	Customs transactions and other significant events are properly classified and promptly recorded so that they maintain their relevance, value, and usefulness to management in controlling operations and making decisions.	
6.	Only authorized individuals can make adjustments to Customs information.	
7.	<p>Internal control and all transactions and other significant events related to Customs activities are clearly documented.</p> <ul style="list-style-type: none"> <li>Written documentation exists for the company's internal control structure and all significant transactions and events.</li> <li>Documentation is readily available for examination.</li> <li>Documentation for internal control includes identification of the company's activity-level functions and related objectives and control activities and appears in management directives, administrative policies, accounting manuals, and other such manuals.</li> </ul>	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<ul style="list-style-type: none"> <li>Documentation of transactions and other significant events is complete and accurate and facilitates tracing the transaction or event and related information from before it occurs, through its processing, to after it is completed.</li> <li>Documentation, whether in paper or electronic form, is useful to managers in controlling their operations and to auditors and others involved in analyzing operations.</li> <li>All documentation and records are properly managed, maintained, and periodically updated.</li> </ul>	
8.	This analysis and evaluation should also include controls over computerized information systems.	

## Information and Communication

According to the fourth internal control component, for a company to run and control its operations, it must have relevant, reliable information relating to external as well as internal events. That information should be recorded and communicated to management and others within the company who need it in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. Managers and evaluators should consider the appropriateness of information and communication systems to the entity's needs and the degree to which they accomplish the objectives of internal control. Listed below are factors a user might consider. The list is a starting point. It is not all-inclusive, nor will every item apply to every company or activity within the company. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in collecting appropriate data and information and in establishing and maintaining good communication.

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<b>Information</b>	
1.	Information related to Customs activities from internal and external sources is obtained and provided to management as a part of the company's reporting on operational performance relative to established objectives.	
2.	Pertinent information related to Customs activities is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.	
3.	Management ensures that effective internal communications occur related to Customs activities. <ul style="list-style-type: none"> <li>Employees understand the aspects of internal control, how their role fits into it, and how their work relates to the work of others.</li> <li>Employees are informed that when the unexpected occurs, they must give attention not only to the event but also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm.</li> <li>Mechanisms exist to allow the easy flow of information down,</li> </ul>	



	<b>Internal Control Point</b>	<b>Comments/Descriptions</b>
	<p>across, and up the organization and to allow easy communications to exist between functional activities.</p> <ul style="list-style-type: none"> <li>• Informal or separate lines of communications exist to serve as a “fail-safe” control for normal communications avenues.</li> <li>• Mechanisms are in place for employees to recommend improvements in operations.</li> </ul>	
4.	<p>Management ensures that effective external communications occur with groups that can have a serious impact on Customs compliance.</p> <ul style="list-style-type: none"> <li>• Open and effective communications have been established with customers, suppliers, consultants, brokers, and others who can provide significant input relative to Customs compliance.</li> <li>• Communication with external parties such as Customs and other federal agencies is encouraged since it can be a source of information on how well internal control is functioning.</li> <li>• Management makes certain that advice, rulings, and recommendations from Customs officers are fully considered and that actions are implemented to correct any problems or weaknesses they identify.</li> </ul>	
	<b>Forms and Means of Communication</b>	
1.	<p>The company employs many and various forms and means of communicating important information with employees and others (policies and procedures manuals, memorandums to staff and regular meeting with staff, etc.).</p>	

## Monitoring

Monitoring is the fifth and final internal control component. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. In considering the extent to which the continued effectiveness of internal control is monitored, both ongoing monitoring activities and separate evaluations of the internal control system, or portions thereof, should be considered. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions that people take in performing their duties. Separate evaluations are a way to take a fresh look at internal control by focusing directly on their effectiveness at a specific time. These evaluations may take the form of self-assessments as well as review of control design and direct testing, and may include the use of this Management and Evaluation Tool or some similar device. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and are resolved in a timely manner. Managers and evaluators should consider the appropriateness of the company’s internal control monitoring and the degree to which it helps them accomplish their objectives.

	<b>Internal Control Point</b>	<b>Comments/Descriptions</b>
	<b>Ongoing Monitoring</b>	
1.	Management has a strategy to ensure that ongoing monitoring of	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<p>Customs activities is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable.</p> <ul style="list-style-type: none"> <li>• Management's strategy provides for routine feedback and monitoring of performance and control objectives.</li> <li>• The monitoring strategy includes identification of critical operational Customs-related systems that need special review and evaluation.</li> <li>• The strategy includes a plan for periodic evaluation of control activities for critical Customs activities.</li> </ul>	
2.	In the process of carrying out their regular activities, company personnel obtain information about whether internal control is functioning properly.	
3.	<p>Communications from external parties corroborate internally generated data or indicate problems with internal control.</p> <ul style="list-style-type: none"> <li>• Communications from Customs officers about compliance or other matters that reflect on the functioning of internal control is used for follow-ups on any problems indicated.</li> </ul>	
4.	Meetings with employees are used to provide management with feedback on whether internal controls are effective.	
	<b>Separate Evaluations</b>	
1.	<p>Scope and frequency of separate evaluations of internal control are appropriate for the company.</p> <ul style="list-style-type: none"> <li>• Risk assessment results and the effectiveness of ongoing monitoring determine the scope and frequency of separate evaluations.</li> <li>• Separate evaluations may be prompted by events such as major strategies, expansions, or downsizing, etc.</li> <li>• Appropriate portions or sections of internal controls are evaluated regularly.</li> <li>• Personnel with required skills, who may include the company's internal auditor or an external auditor, conduct separate evaluations.</li> </ul>	
2.	<p>The methodology for evaluating the company's internal control is logical and appropriate. Consider the following:</p> <ul style="list-style-type: none"> <li>• The methodology used may include self-assessments using checklists, questionnaires, or other such tools, and it may include the use of this Management and Evaluation Tool or some similar device.</li> <li>• The separate evaluations may include a review of the control design and direct testing of the internal control activities.</li> <li>• The evaluation team develops a plan for the evaluation process to ensure a coordinated effort.</li> <li>• If the evaluation process is conducted by company employees, it is managed by an executive with the requisite authority, capability, and experience.</li> <li>• The evaluation team gains a sufficient understanding of the company's objectives related to Customs compliance.</li> <li>• The evaluation team gains an understanding of how the company's internal control system is supposed to work and how it actually works.</li> <li>• The evaluation team analyzes the results of the evaluation against</li> </ul>	

	<b>Internal Control Point</b>	<b>Comments/ Descriptions</b>
	<p>established criteria.</p> <ul style="list-style-type: none"> <li>• The evaluation process is properly documented.</li> </ul>	
3.	<p>Deficiencies found during separate evaluations are promptly resolved.</p> <ul style="list-style-type: none"> <li>• Deficiencies are promptly communicated to the individual responsible for the function and also to at least one level of management above that individual.</li> <li>• Serious deficiencies and internal control problems are promptly reported to top management.</li> </ul>	
	<b>Audit Resolution</b>	
1.	<p>The company has a mechanism to ensure the prompt resolution of findings from audits and other reviews. Consider the following:</p> <ul style="list-style-type: none"> <li>• Managers promptly review and evaluate findings resulting from audits and assessments, including those showing deficiencies and those identifying opportunities for improvements.</li> <li>• Management determines the proper actions to take in response to findings and recommendations.</li> <li>• Corrective action is taken or improvements made within established time frames to resolve the matters brought to management's attention.</li> <li>• In cases where there is disagreement with the findings or recommendations, management demonstrates that those findings or recommendations either are invalid or do not warrant action.</li> <li>• Management considers consultation with auditors when it is believed to be helpful in the audit resolution process.</li> </ul>	
2.	<p>Company management is responsive to the findings and recommendations of audits and other reviews aimed at strengthening internal control.</p>	
3.	<p>The company takes appropriate follow-up actions with regard to findings and recommendations of audits and other reviews.</p> <ul style="list-style-type: none"> <li>• Problems are corrected promptly.</li> <li>• Underlying causes giving rise to the findings or recommendations are investigated by management.</li> <li>• Actions are decided upon to correct the situation or take advantage of the opportunity for improvements.</li> <li>• Management and auditors follow up on audit and review findings, recommendations, and the actions decided upon to ensure that those actions are taken.</li> <li>• Top management is kept informed through periodic reports on the status of audit and review resolutions so that it can ensure the quality and timeliness of individual resolution decisions.</li> </ul>	

Source: Adapted from United States General Accounting Office, *Internal Controls Management and Evaluation Tool EXPOSURE DRAFT*, GAO-01-131G, February 2001.